

DONIPHAN COUNTY, KANSAS LIBRARY  
DISTRICT NO. 1  
TROY, KANSAS

FINANCIAL STATEMENT  
WITH INDEPENDENT AUDITOR'S REPORT

YEAR ENDED DECEMBER 31, 2012

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1**  
**TROY, KANSAS**

For the Year Ended December 31, 2012

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221 N 6<sup>th</sup> Street  
Atchison, KS 66002  
Telephone (913) 367-2707  
Fax (913) 367-2419  
patsyp@papcpa.com

## **INDEPENDENT AUDITOR'S REPORT**

Board of Trustees  
Doniphan County, Kansas Library District No. 1

I have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of Doniphan County, Kansas Library District No. 1 (the District) as of and for the year ended December 31, 2012, and the related notes to the financial statement.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the *Kansas Municipal Audit and Accounting Guide* as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to error or fraud.

### **Auditor's Responsibility**

My responsibility is to express an opinion on this financial statement based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described in Note 1 of the financial statement, the financial statement is prepared by the District to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the *Kansas Municipal Audit and Accounting Guide*, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

**Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In my opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on U.S. Generally Accepted Accounting principles" paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the District as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.


**Opinion on Regulatory Basis of Accounting**

In my opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balances of Doniphan County, Kansas Library District No. 1, as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended, in accordance with the financial reporting provisions of the State of Kansas and the *Kansas Municipal Audit and Accounting Guide* as described in Note 1.

**Report on Supplementary Information**

My audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures – actual and budget, and individual fund schedules of regulatory basis receipts and expenditures – actual and budget (Schedules 1 and 2 as listed in the table of contents), are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note 1.

  
Patsy A. Porter, CPA, PA

September 24, 2013

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1  
TROY, KANSAS**

**SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH  
REGULATORY BASIS**

For the Year Ended December 31, 2012

	Beginning Unencumbered Cash Balance	Prior Year Canceled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
<b>FUNDS</b>							
Governmental type funds:							
General fund	\$ 38,279	\$ -	\$ 350,304	\$ 355,191	\$ 33,392	\$ 10,121	\$ 43,513
Special purpose funds:							
Employee benefits	5,779	-	18,928	20,381	4,326	-	4,326
Capital improvement	146,228	-	28,348	-	174,576	-	174,576
Trust fund:							
Euler bequest	-	-	273,853	99,038	174,815	-	174,815
Total reporting entity	\$ 190,286	\$ -	\$ 671,433	\$ 474,610	\$ 387,109	\$ 10,121	\$ 397,230
Composition of cash:							
Checking accounts							\$ 248,160
Certificates of deposit							129,408
Savings accounts							19,662
Total cash							\$ 397,230

# DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1 TROY, KANSAS

## NOTES TO THE FINANCIAL STATEMENT

### 1 - Summary of Significant Accounting Policies

#### (a) Reporting Entity

Doniphan County, Kansas Library District No. 1 (the District) is a municipality organized under K.S.A. 12-1236 and governed by an elected seven-member board. These financial statements present the District. The District has branches in Troy, Highland, Elwood and Wathena, Kansas.

#### (b) Regulatory Basis Fund Types

A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the District for the year 2012:

General fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special purpose funds - used to account for the proceeds of specific tax levies and other specific revenue sources (other than major capital projects and tax levies for long-term debt) that are restricted by law or administrative action to expenditures for specified purposes.

Trust fund – funds used to report assets held in trust for the benefit of the District (i.e. pension funds, investment trust funds, private purpose trust funds which benefit the District, scholarship funds, etc.).

#### (c) Basis of Accounting

*Regulatory basis of accounting and departure from accounting principles generally accepted in the United States of America.* The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The District has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the District to use the regulatory basis of accounting.

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1  
TROY, KANSAS**

**NOTES TO THE FINANCIAL STATEMENT  
(Continued)**

**1 - Summary of Significant Accounting Policies (Continued)**  
**(d) Budgetary Information**

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory, rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5<sup>th</sup> of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15<sup>th</sup>, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25<sup>th</sup>.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures include

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which, revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the District for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds or trust funds.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing board.

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1  
TROY, KANSAS**

**NOTES TO THE FINANCIAL STATEMENT  
(Continued)**

**1 - Summary of Significant Accounting Policies (Continued)**

**(d) Risk retention**

The District handles risk of loss through the purchase of commercial insurance. Insurance coverage has not been reduced from the prior year. Insurance settlements have not exceeded insurance coverage.

**2 - Compensated absences**

As described in Note 1, these financial statements are prepared in compliance with the regulatory basis of accounting, and therefore there is no presentation for vested or accumulated compensated absences.

Full-time employees earn ten days of vacation time per year after ninety days of service (pro-rated for part-time employees). One additional week of vacation is earned after each successive 10 years of service, with a maximum of four weeks total. Vacation time does not accumulate or vest. Sick and emergency leave is earned at the rate of forty hours per year for full-time employees (pro-rated for part-time employees), with a maximum of twenty days. Sick leave does not vest.

**3 - Deposits**

K.S.A. 9-1401 establishes the depositories which may be used by the District. The statute requires banks eligible to hold the District's funds have a main or branch bank in the county in which the District is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The District has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the District's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The District has no investment policy that would further limit its investment choices.

*Concentration of credit risk.* State statutes place no limit on the amount the District may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and 9-1405.



**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1**  
**TROY, KANSAS**

NOTES TO THE FINANCIAL STATEMENT  
(Continued)

3 - **Deposits (Continued)**

*Concentration of credit risk (continued).* At December 31, 2012, the District's carrying amount of deposits, including certificates of deposit and time deposits, was \$397,230 and the bank balance was \$392,214. The bank balance was held by four banks resulting in a concentration of credit risk. All of the bank balance was covered by federal depository insurance.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured. The District had no such investments as of December 31, 2012.

4 - **Retirement Plan**

*Plan description.* The District maintains a SIMPLE plan that all full-time employees are eligible to participate in. The District matches employee contributions to the plan up to a maximum of 3%. The District's contributions were \$3,492 and \$3,476 for December 31, 2012 and 2011.

5 - **Property Taxes**

The District's ad valorem property tax is levied each year on the assessed value listed as of the prior January 1 for all real and business personal property located in the District.

The tax rate assessed for the year ended December 31, 2012 to finance the general fund was \$3.718 per \$1,000 valuation and the employee benefits fund was \$0.215 per \$1,000 valuation.

Taxes are due on December 20 and May 10.

6 - **Subsequent Events**

Management has evaluated subsequent events through September 24, 2013, the date the financial statements were available to be issued.

## REGULATORY REQUIRED SUPPLEMENTAL INFORMATION

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1  
TROY, KANSAS**

**SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS**

For the Year Ended December 31, 2012

<u>FUNDS</u>	<u>Certified Budget</u>	<u>Expenditures Chargeable to Current Year</u>	<u>Variance - Favorable (Unfavorable)</u>
Governmental type funds:			
General fund	\$ 376,695	\$ 355,191	\$ 21,504
Special revenues funds:			
Employee benefits fund	21,553	20,381	1,172
Capital improvements fund	480,000	-	480,000

See independent auditor's report.

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1**  
**TROY, KANSAS**

GENERAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2012  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash receipts:				
Ad valorem tax	\$ 264,347	\$ 291,773	\$ 300,048	\$ (8,275)
Ad valorem delinquent tax	6,010	7,667	2,100	5,567
Motor vehicle tax	25,891	25,396	24,227	1,169
Recreational vehicle tax	597	582	525	57
16/20 M vehicle tax	4,302	4,763	4,174	589
Donations and grants	6,774	12,555	33,000	(20,445)
NEKLS grant	-	-	500	(500)
Insurance proceeds	-	-	-	-
State aid	3,538	3,143	4,500	(1,357)
Interest on idle funds	959	843	2,000	(1,157)
E-rate refund	3,180	2,789	4,000	(1,211)
Miscellaneous	2,704	-	-	-
Refunds	790	793	-	793
Total cash receipts	319,092	350,304	\$ 375,074	\$ (24,770)
Expenditures, encumbrances and transfers:				
Books and materials	40,300	45,347	\$ 56,500	\$ (11,153)
Capital improvements	17,777	10,389	10,000	389
Commodities	12,060	15,189	16,700	(1,511)
Contractual services	36,434	59,704	51,750	7,954
Personal services	169,681	191,733	193,000	(1,267)
Technology	19,669	20,099	27,000	(6,901)
Transfer to capital improvements	9,000	-	10,000	(10,000)
Revitalization rebates	12,092	12,730	11,745	985
Total expenditures, encumbrances and transfers	317,013	355,191	\$ 376,695	\$ (21,504)
Receipts over (under) expenditures, encumbrances and transfers	2,079	(4,887)		
Unencumbered cash, beginning	36,200	38,279		
Adjustment to unencumbered cash for prior year canceled encumbrances	-	-		
Unencumbered cash, ending	\$ 38,279	\$ 33,392		

See independent auditor's report.

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1**  
**TROY, KANSAS**

EMPLOYEE BENEFITS FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2012

(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash receipts:				
Ad valorem tax	\$ 15,832	\$ 16,644	\$ 17,075	\$ (431)
Ad valorem delinquent tax	349	457	-	457
Motor vehicle tax	1,483	1,519	1,450	69
Recreational vehicle tax	34	35	31	4
16/20 M vehicle tax	256	273	250	23
Rent in lieu of taxes	-	-	-	-
Total cash receipts	17,954	18,928	\$ 18,806	\$ 122
Expenditures, encumbrances and transfers:				
Unemployment	170	188	\$ 250	\$ (62)
Workers compensation	552	1,404	1,000	404
Social Security and Medicare	12,981	14,571	15,000	(429)
Retirement	3,476	3,492	4,600	(1,108)
Revitalization rebates	724	726	703	23
Total expenditures, encumbrances and transfers	17,903	20,381	\$ 21,553	\$ (1,172)
Receipts over (under) expenditures, encumbrances and transfers	51	(1,453)		
Unencumbered cash, beginning	5,728	5,779		
Adjustment to unencumbered cash for prior year canceled encumbrances	-	-		
Unencumbered cash, ending	\$ 5,779	\$ 4,326		

See independent auditor's report.

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1**  
**TROY, KANSAS**

CAPITAL IMPROVEMENT FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET  
REGULATORY BASIS

For the Year Ended December 31, 2012  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	Prior Year Actual	Current Year		Variance Over (Under)
		Actual	Budget	
Cash receipts:				
Transfer from general fund	\$ 9,000	\$ -	\$ 10,000	\$ (10,000)
Donations	-	27,051	-	27,051
Interest on idle funds	2,131	1,297	-	1,297
Total cash receipts	11,131	28,348	\$ 10,000	\$ 18,348
Expenditures, encumbrances and transfers:				
Reconstruction, repair and remodeling	19,645	-	\$ 480,000	\$ 480,000
Miscellaneous	-	-	-	-
Total expenditures, encumbrances and transfers	19,645	-	\$ 480,000	\$ 480,000
Receipts over (under) expenditures, encumbrances and transfers	(8,514)	28,348		
Unencumbered cash, beginning	154,743	146,228		
Adjustment to unencumbered cash for prior year canceled encumbrances	-	-		
Unencumbered cash, ending	\$ 146,229	\$ 174,576		

See independent auditor's report.

**DONIPHAN COUNTY, KANSAS LIBRARY DISTRICT NO. 1**  
**TROY, KANSAS**

EULER BEQUEST FUND

STATEMENTS OF RECEIPTS AND EXPENDITURES  
REGULATORY BASIS

For the Year Ended December 31, 2012  
(With Comparative Actual Totals for the Prior Year Ended December 31, 2011)

	<u>Prior Year</u>	<u>Actual</u>
Cash receipts:		
Donations	\$ 200,000	\$ 273,853
	<u>200,000</u>	<u>273,853</u>
Total cash receipts		
Expenditures, encumbrances and transfers:		
Capital outlay	200,000	77,069
Commodities	-	1,047
Contractual services	-	1,992
Technology	-	18,930
	<u>200,000</u>	<u>99,038</u>
Total expenditures, encumbrances and transfers		
Receipts over (under) expenditures, encumbrances and transfers	-	174,815
Unencumbered cash, beginning	-	-
Adjustment to unencumbered cash for prior year canceled encumbrances	-	-
Unencumbered cash, ending	<u>\$ -</u>	<u>\$ 174,815</u>

See independent auditor's report.

221 N 6<sup>th</sup> Street  
Atchison, KS 66002  
Telephone (913) 367-2707  
Fax (913) 367-2419  
patsyp@papcpa.com

To the Board of Trustees of  
Doniphan County, Kansas Library District No. 1

In planning and performing my audit of the regulatory basis financial statement of Doniphan County, Kansas Library District No. 1 (the entity) as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America and the *Kansas Municipal Audit and Accounting Guide*, I considered the entity's internal control over financial reporting (internal control) as a basis for designing my audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I do not express an opinion on the effectiveness of the entity's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

My consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. Given these limitations during my audit, I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

However, I did note the following matters that represent opportunities for strengthening internal controls.

### **Control Procedures**

*Cash cutoff* – During the audit of cash, I noted that January 1, 2013 payroll checks cleared the December 31, 2012 bank statement; I further noted a payroll check listed as outstanding on the bank reconciliation had actually cleared the December 31, 2012 bank statement.

It is especially important that the cash balances of the Library District be accurately reflected at the end of the year, as well as throughout the year. When the subsequent payroll checks clear the



bank early and actual cleared checks are listed outstanding, it causes the cash reconciliation to be off.

Staff has indicated that these checks are distributed prior to January 1, due to the New Year's holiday. If you choose to continue with the early distribution, you must instruct employees to not cash or deposit the checks until the bank's close of business on December 31. This should ensure that the checks do not clear until the following month.


The Library converted its accounting software to QuickBooks, which I believe to be the cause of the outstanding check error. Close attention to detail when performing the bank reconciliations will minimize the likelihood of oversights such as this. I would recommend someone other than the person reconciling, review the bank reconciliation summary and detail and sign off to indicate their review.

*Cash classification* – During the audit of tax revenues, I noted that the December distribution from the County Treasurer was deposited entirely in the general fund (A-account). Upon examining the check detail from the Treasurer, \$286.45 should have been deposited in the employee benefits fund (B-account). I recommend a transfer be made between the accounts to correct the fund balance error. I have proposed an adjustment to record an outstanding transfer in/out between these accounts to accurately reflect the fund balances at year end.

### **Reporting and Monitoring**

As noted above, the Library converted its accounting software to QuickBooks. I encountered difficulty in segregating the receipts and disbursements into their proper fund. The detail of each account had to be analyzed to determine the proper amounts were posted to the respective fund. In order to easily account for the balances of each of the Library's funds, I recommend setting up a "class" for the general, employee benefit, capital improvement & special bequest funds. In doing so, each receipt and disbursement can be classified and the fund balances easily reported to the Board by printing an "Income Statement by Class". I would be happy to get you started if needed.

This communication is intended solely for the information and use of management, Board of Trustees, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

  
Patsy A. Porter, CPA, PA  
Atchison, Kansas

September 24, 2013